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ABSTRACT

This report provides a conceptual model of how a business develops and grows in Wisconsin and results from a survey of entrepreneurs. Part I provides the background and develops the conceptual model. It defines small business, discusses entrepreneurial characteristics, describes stages of business development, and considers barriers encountered by small business, including difficulty in obtaining capital, management difficulty, government regulations, taxes, obtaining technical assistance, and being female or a minority. A conceptual model of business development is then presented. Each stage in the two phases--pre-venture phase and venture phase--is discussed. Part II presents the results of a survey of nearly 300 entrepreneurs and potential entrepreneurs addressing their perceptions of problems and barriers to business entry and growth. Data are cited that suggest that characteristics related to the individual entrepreneur are the primary barrier to initiating a business venture, while the availability of capital resources are secondary. Analyses of other data show that firms more likely to express the expectancy to generate jobs are positively associated with higher scores on the expansion stage, negatively associated with higher scores on the maintenance stage, and more likely to be male-owned or male-managed. (Seven figures and 12 tables are provided.) (YLB)

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Stages of Business Development and Job Generation in Wisconsin

Report Prepared for the
Wisconsin Strategic Development Commission
March 1, 1985

Dr. James R. Stone III
Marketing Education
Department of Continuing and Vocational Education
University of Wisconsin-Madison

Dr. Rose Mary Wentling
Business Education
Department of Continuing and Vocational Education
University of Wisconsin-Madison

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Preface

This report is divided into two parts. Part I provides the background and develops a conceptual model of the stages of business development. Part II presents the results of a survey of nearly 300 entrepreneurs and potential entrepreneurs addressing their perceptions of problems and barriers to business entry and growth.

While there are many competing theories of how a business develops, it is anticipated that this document will provide the reader with a conceptual model of how a business develops and grows in Wisconsin.

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OBJECTIVES OF THE STUDY

Objective 1. Develop a conceptual model of business development in Wisconsin.

A. Identify the point at which a venture is considered a small business for small business policy considerations.

B. Identify categories of small business development appropriate to Wisconsin.

1. Identify institutional characteristics unique to each category.
2. Identify owner/manager characteristics unique to each category
3. Identify environmental characteristics unique to each category
4. Identify barriers to the transition between categories of business development.

Objective 2. Determine the relationship between the catagories or stages of business development and the potential for generating jobs.

A DEFINITION OF SMALL BUSINESS

There are a myriad of definitions of small business. With criteria as diverse as enterprise class size to company assets (The SBA has at least eight legislative definitions with which it must contend), there seems to be many ways to conceptualize a small business. (See Chart 1).

Because the purpose of this study is to examine the nature of small business in Wisconsin, a precise definition was deemed not necessary. However, for the deliberations of the Commission, it may be important to conceptually differentiate businesses that are the intent of this study and those that are not. To this end, a useful concept of a small business is that it is independently owned, has a single decision-making center, and is operated by an owner/manager who is the primary person to deal with government requirements. This definition corresponds in essence to the following one used in a major SBA report: "a small firm is one which does not benefit from the economies of scale under which large firms operate."

Chart 1

Definitions of Small Business

Definition based on annual revenue	32.0%
Definition based on number of employees	23.0%
Definition based on business characteristics	14.0%
Definition based on industry characteristics	12.0%
Definition using a combination of revenue and number of employees	10.0%
Definition based on geographic area served	2.0%
Definition based on company assets	0.5%
Miscellaneous other types of definitions	6.5%

ENTREPRENEURIAL CHARACTERISTICS

When creating a business enterprise, the entrepreneur's behavior is characterized by a high level of activity, innovation, competition and little fear of failure (Brereton, 1974). The entrepreneur is self-confident and is willing to take responsibility for his actions (McCleeland, 1961). What happens to entrepreneurs is a result of their own efforts and "not God, fate, luck, government or whatever" (Berlew, 1975). They also show the qualities of persistence and willingness to work long hard hours.

In 1976, Schwartz conducted a study to gain an understanding of the kind of person who becomes an entrepreneurs. Schwartz identified five conclusions from the data reported by the survey participants:

1) motivation to start businesses included: need to achieve, desire to be independent, job satisfaction and economic necessity;
2) the most important personality traits needed by successful entrepreneurs were (a) strong ego and (b) achievement orientation;
3) tended to be autocratic in their management style;
4) credit in the capital formation stage was the major barrier they experienced;
5) the most common mistake survey participants made was underestimating the cost of conducting their business operations.

John Abound (1981) found that entrepreneurs tend to have the following characteristics in common: 1) need for concrete feedback, 2) an ability to set realistic goals, 3) ability to break down tasks into achievable goals; 4) desire to control their own destiny, and 5) ability to foresee and overcome barriers.

Specific instruments have been developed to measure specific entrepreneurial attributes and have been used in research studies, such as the Kogan-Wallace Choice Dilemmas Questionnaire (CDQ) and the I-E Locus of Control Scale (Brockhaus, 1976); the Eysenck Personality Inventory (Lynn, 1969); Mukherjee's Sentence Completion Test of Achievement Values (Pandey, 1979); Levenson' Attitude Statement Survey (Scanlan, 1974); and Rotter's Internal-External Control Scale (Durand, 1974).

In addition, entrepreneurial characteristics have been studied from a variety of perspectives such as interviews, case studies, personal observation, historical studies, the need to achieve, and risk taking behavior. An entrepreneur, in general, may be described as an individual who has high need for achievement; rejects authority, has a strong desire for independence; takes moderate risks; does not follow fixed patterns and procedures, and seeks out challenges (Shapero, 1971).

Role Models. One indicator of successful entrepreneurship arising from the literature is "father's occupation." Both Mills (1963) and Gilmore (1971) indicated that over 50 percent of entrepreneurs in their studies had fathers who owned their own businesses. Although this is an impressive figure, it also indicates that there is a large percentage of entrepreneurs whose fathers were not self-employed. These entrepreneurs may have role models other than their fathers. The research study by Roberts and Wainer (1966) of technical entrepreneurs indicated that a simple familiarity with a business environment during their youth may influence people to become entrepreneurs. Shapero (1977) suggested the existence of a role model could be identified from the entrepreneur's immediate family or other reference group. Studies indicated that businesses are more likely to succeed when the entrepreneur has been prepared for ownership responsibilities and has had a role model for inspiration and emulation.

Educational Background. The Collins, Moore, and Unwalla study indicated an educational level of high school or above for 64 percent of entrepreneurs in their sample; in another study by Gilmore (1971), the percentage was over 90 percent. In general, entrepreneurs appear to have educational levels higher than that for the general population. Educational background also influences whether a person might be prepared to start particular kinds of businesses. The person who does not understand computers is not prepared to start a computer software company. The person who cannot analyze financial statements would find it difficult to raise capital from investors or banks for a large venture. Research studies indicate formal education can help to prepare the entrepreneur. However, additional research may be needed to verify that a minimum educational level is necessary for entrepreneurial success.

Innovation and Creativity. Entrepreneurs may be viewed as highly innovative people. The process of initiating and maintaining a business is a highly creative act. Entrepreneurs are motivated to take advantage of opportunities and are not afraid of failure. They are achievement oriented and actively seek out new opportunities. Brereton (1974) indicated that success in business is related to innovative behavior, which is demonstrated by entrepreneurs when they seek out new ideas, show a willingness to initiate new businesses, and associate with people who have similar characteristics and values. Swayne and Tucker (1973) identified three basic categories of creative entrepreneurs: (a) the associative entrepreneur who develops the creative ideas of others, (b) entrepreneurs who use their independence, and (c) the flexible entrepreneurs who can use their own and other's creative ideas. Creativity or innovativeness appears to be an important factor in being entrepreneurial.

Entrepreneurs have a strong need to be independent so that they can be

innovative and creative. They perceive of their own businesses as practical ways of securing independence and creating something of their own. Entrepreneurs want to be in charge of their own lives and do their own work in their own way.

Job Changes. Prior to self-employment, frequent job changes could be regarded as a symptom of the entrepreneur's need for independence. This occupational behavior pattern was reported in research studies by Komives (1965), and Susbauer (1969). A "job-hopping" behavior was also evident in a number of case studies developed by Lessner (1973). It may be that this pattern of "job-hopping" becomes part of the informal education of the small business owner. The skills, experiences and knowledge accumulated, together with personal contacts made in the process, often help the worker develop into an effective entrepreneur.

Parental Influence. McClelland's (1961) underlying assumption in his research was that entrepreneurs have a high need for achievement which will lead them to behave in certain ways and have certain tendencies. McClelland stressed the influence of parents on the entrepreneur. Parents who constantly instill high standards to be achieved will produce children who possess entrepreneurial tendencies. These parents instill the standards for excellence because of their religion, world view, the profession, and position as head of the family. This type of upbringing breeds people who have a high need for achievement and desire situations that require skill, a desire to take responsibility for an action, and a need to have a quantifiable means for measuring performance. A major conclusion of McClelland's research was that "need for achievement" was a major motivating force. This need achievement may be defined as the desire to do well for the sake of an inner feeling of personal accomplishment.

Many cultural groups, such as Jews in America, or Cuban immigrants in Miami, or the Chinese in Southeast Asia have a tradition of members starting new businesses. Sometimes, they have been prevented from working for others because of prejudice. Children growing up in such groups are surrounded by examples of entrepreneurship. They learn what is involved in working businesses. It becomes easy for them to think of themselves as people who can start businesses also.

Economic Benefits. In a society where income is viewed as a symbol of achievement, profit becomes tangible evidence of an entrepreneur's ability and competence. In Gilmore's (1971) study, the sample of entrepreneurs scored significantly higher than the general population on the Economic Scale of the Allport-Vernon-Linzey Study of Values.

Interest in the economic or materialistic aspect of entrepreneurial activities was investigated by Shapero, Garcia-Bouza and Ferrari (1974) in a study of technical entrepreneurs who started their own businesses. They concluded that economic incentives represented 25 percent of the motivation for initiating businesses. Two other important factors in the entrepreneurs' motivation for initiating businesses were independence and autonomy (25%), and creativity and job satisfaction (20%).

Problem Solving. Danhog (1949) perceived entrepreneurship as obtaining relevant information, evaluating the information with regard to profit, and setting the business operation in motion. The entrepreneur may be viewed as the person who determines the type of business to be initiated. Once this decision is made, the entrepreneur must be able to make decisions based on changing market conditions and emerging opportunities. The decision making role was highlighted by Lamb (1952) when he stated that entrepreneurship is a form of social decision making performed by economic innovators.

Feedback. Secrest (1975) indicates that entrepreneurs have a desire for immediate information about their performance and that they will use negative as well as positive feedback in order to alter their strategies to increase their probability of success (Berlew, 1975). In a study of research and development entrepreneurs, the more successful entrepreneurs in the sample spent a great deal of time looking for answers in the marketplace (Schrage, 1965).

After information is collected, entrepreneurs make adjustments in strategies or goals. They appear to be flexible and adaptable in their decision making behavior (Berlew, 1975). Swayne and Tucker (1973) indicated that entrepreneurs tend to make management decisions quickly, however, they believe that rapid decision making and implementation is essential to the success of any new organization.

Achievement Motivation. As noted earlier, McClelleand has extensively studied the relationship between the need for achievement and entrepreneurship. He hypothesized that high need for achievement would lead people to become entrepreneurs, and conducted various experiments to verify this hypothesis.

Kilby's (1971) review of McClelland's analysis indicated problems relating to loosely defined variables, biased sample data and weakly linked multi-state arguments. In four out of five groups in one of the experiments, the correlation between need for achievement and preference for business occupations were either not statistically significant, zero, or negative.

McClelland and Winter (1969) described an apparently successful program which was based on McClelland's hypothesis which was designed to train people to increase their achievement motivation. Reviewing this experiment Borland (1975) commented that need achievement increased, as measured by the Thematic

Apperception Test (TAT). However, this increase was due to participants being taught to respond to questions similar to those on the test. In relating need achievement to entrepreneurship, other research studies show varying results. Hornaday and Bunker (1970), Lynn (1969) and Hines (1973) reported finding that entrepreneurs have higher achievement motivation than average adults, university students, engineers and middle managers.

Borland (1975) found that her results suggested that:

> Need for achievement energizes but does not channel achievement oriented behavior. It activates people to seek success, but does not impart such a specific direction to one's activity as McClelland and hypothesizes when he states that those with high n-Ach are most attracted to entrepreneurial activity. (p. 116).

Gilmore (1971) reported that entrepreneurs in his study scored high as well as low in need for achievement, and those with moderate scores had the highest sales growth rate. While accepting need for achievement as an "average" indicator of successful entrepreneurs, he recommended that it warrants additional research.

In general, entrepreneurs appear to possess similar characteristics and exhibit similar tendencies. The items in Figure 1 provide a general profile of the characteristics of entrepreneurs.

Other entrepreneurial discriptors include personal fitness, both emotional and physical, as well as experience with and skills in leadership and management. (Powell and Bimmerle, 1981). However, simply possessing these attributes does not mean an individual will undertake an entrepreneurial activity. Something must precipitate the act.

Figure 1

CHARACTERISTICS OF ENTREPRENEURS

WORK LONG HOURS
INVOLVED IN ALL ASPECTS OF THE BUSINESS
SHORT ATTENTION SPAN
MODERATE RISK TAKER
ACTION OREINTED
PRACTICAL RATHER THAN THEORETICAL
NOT INCLINED TO FORMAL TRAINING PROGRAMS
DECISION MAKER
INNOVATIVE AND CREATIVE
NEED FOR INDEPENDENCE
PLANNER AND GOAL SETTER
REALISTIC
UNDERSTANDS HUMAN BEHAVIOR
SEEKS CONCRETE FEEDBACK
HIGH ACHIEVEMENT MOTIVATION
SELF RELIANT
NOT A CONFORMER
LEADS RATHER THAN FOLLOWS
HIGHLY COMPETITIVE
SELF CONFIDENT
ORGANIZED
ABILITY TO FORESEE AND OVERCOME OBSTACLES
HAVE ROLE MODELS
PROBLEM SOLVER

STAGES OF BUSINESS DEVELOPMENT

THE PRE-VENTURE PHASE

While there are a host of possible precipitators, some "push" and some "pull", they can be catagorized as either dissatisfaction with some aspect of life (a push factor); opportunity, some occurrence at work or from some external source (a pull factor); and encouragement, either from a potential customer(s), a spouse, or potential investor (a pull factor). Sometime during the interaction of these factors the concept of initiating a venture occurs.

As the idea evolves, the entrepreneur will evaluate the potential. Powell and Bimmerle (1981) discussing the complexity of the venture evaluation process, emphasized the importance of firming up support. Commitment is sought as a replacement for encouragement. If the new venture incorporates a technological innovation, the evaluation process could take from seven to ten years with five sub-stages of: idea generation, technological feasibility, product or prototype development, and ultimately commercialization or roll out. (Report of the Special Conference on Entrepreneurship and It's Impact on America's Economy, 1983).

Based on the outcomes of the evaluation, the entrepreneur will decide or not decide to initiate a venture. A decision not to initiate may not be permanent, but may merely reflect changes in potential support that might later evolve positively. The decision to initiate will most likely result when the entrepreneur perceives the mix of personal characteristics, precipitating factors, and contracted support is sufficient for success.

THE VENTURE PHASE

Growth in employment depends, in a large part, upon the birth and expansion of small firms. Entrepreneurs have the ability to spark new ideas and new products that create businesses, which in turn create the need for new jobs.

Developing a taxonomy of business growth and development is a recent phenomenon. Early efforts tended to focus on a single criterion such as size of the establishment, gross revenues, industry type environmental stability, control systems, or technology (Filley and Aldag, 1978). It should be noted that the Federal government, through the SBA, still emphasizes size of the establishment.

Birch (1979), using firm size as the key criterion, found that between 1969 and 1976:

> On the average about 60 percent of all jobs in the U.S. are generated by firms with 20 or fewer employees; about 50 percent of all jobs are created by independent small entrepreneurs. Large firms (those with over 50 employees) generate less than 15 percent of all new jobs.

This study was based on Dun and Bradstreet's data files of 5.6 million businesses. From the results of this study, it appears that the smaller corporations are aggressively seeking out new opportunities.

The Birch report indicated that small firms, despite their difficulties in obtaining capital and their inherently higher death rates, are the major generators of new jobs in our economy. In slower growing areas, small firms may be the only significant provider of jobs. Most economic development programs to stimulate new job opportunities have been aimed at relatively few large corporations. However, it is the thousands of anonymous smaller firms that are job providers in the older sections of our cities and also provide the major share of new jobs in the growing areas as well.

It was indicated in the Birch report that not all small firms are equally productive and it was the smaller, younger firms that generated jobs. Once a firm survived much beyond fours years, their job generation powers declined substantially. From the results of the Birch report, a profile of a job generating firm can be formulated; it is small, has been in operation less

than four years, tends to be independent, and is volatile. This profile does not appear to vary much across industries or across regions of the country.

More recent efforts have recognized the inherent complexity of a business development paradigm. Filley and Aldag (1978) posit an adaptive typology based on 11 organizational characteristics the combination of which yields three organizational types: craft, promotion, and administrative. The implicit assumption is that job generation potential lies in the promotion type which the authors suggest is a short lived and transitory in nature.

Churchill and Lewis (1983) also recognize the complexity of the phenomenon and emphasize the deficiencies of previous models as they relate to small businesses. Most models, they observe, assume that a company must grow or die. Earlier models also ignored the early stages of business development and tended to be unidimensional in their classification schemes. The authors developed a five stage model combining size, diversity and complexity and five management factors: style, organizational structure, strategic goals, owner involvement with the business. There is little in this model to suggest where the job generation potential would be optimal. (See Figure 2 for a summary and additional commentary on models of small business development).

Figure 2 Models of Business Development

SOURCE	Kierulff	American Electronics Association	Cooper	Filley & Aldag	Miller	Buchele
TYPOLOGY	Young Technology Companies	Start up (Less than 5 years)	Pre Start up	Craft	Survival	Starting crisis
	Innovative Companies	Developing (5-10 years)	Start up	Promotional	Growth	Cash crisis
		Teenage (10-20 years)	Early Growth	Administrative		
	Mature Companies				Shaping	Delegation crisis
		Mature (20+ years)	Later Growth			
					Maturity	Leadership crisis
						Finance crisis
COMMENTS	Young tech companies created 34,369 jobs compared to 25,555 created by Mature companies. Innovative companies created 106,598 jobs (late 60's data base)	Younger companies created 89 jobs per company vs only 69 new jobs for a mature company even though the mature companies had as many as 27 times more employees to begin with	Firm becomes an entity at the early growth stage. 79% of firms stabilize here. Limited growth potential. Later growth moves towards management building & more formality.	Firms may be characterized by 11 different dimensions Posits that growth is most closely associated with the promotional type firms.		Prosperity crisis

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Figure 2 Continued

Churchill & Lewis	Small Business Administration	Tozer, Williamson, & Welsh	Baumback & Mancuso
Existence	Firm size under 20	Concieving the "seed" of a business idea	Idea State
Survival	Firm size 20-100	Gaining product & market knowledge	Start Up Problem
Success		Developing the business concept	Venture Financing
Disengagement	Firm size 100-250	Making the investment decision	
Growth		Making the venture once	Growth Crisis
Take-Off	Firm size 250-500	Perceiving growth opportunity	Maturity Crisis
Maturity		Expanding the business	The Impossible Transition
	Firm size 500+		
Their model discusses the complex of interactions between management factors and business factors.	All net new jobs were generated by the first class of businesses between 1980-82. During 1969-76 this size accounted for 60% of all new jobs. 75% of all businesses have fewer than 5 employees. 50% of all jobs created by independent entrepreneurs, large firms created 15%.	This is one of the few models that addresses the pre-venture aspect of business development.	

BARRIERS ENCOUNTERED BY SMALL BUSINESS

MANAGEMENT RELATED

Lundborg (1980) indicated the many problems of entrepreneurs now entering business. These problems relate to "lack of management skills, improper financial forecasting, and difficulty in establishing leadership roles with employees. Dun and Bradsheet (1977) indicated that the entrepreneur's lack of management skill and the entrepreneur's lack of experience in the particular field of business is the main cause of small business failure.

Binks and Coyne (1983) indicated that as for industrial characteristics, attention has been concentrated principally on barriers to entry, notably the minimum technically-efficient size of a production unit, the cost of equipment, the degree of concentration of the country, and its growth-path, pattern and potential. According to Johnson and Cathcart (1983) where concentration results from the existence of dominant firms, it could be argued that they will inhibit entry to the industry because of the perceived imbalance of competitive power.

According to Binks and Coyne (1983) there are a number of obstacles which severely limit the ability of certain entrepreneurs to put their ideas into practice. These inhibiting constraints must be overcome if the firm is going to come into being, though they often remain problematic as the first steps along the growth-path are taken. The principal constraints are the (1) availability of suitable premises, (2) the accessibility of finance, and (3) the structure and incidence of taxation.

CAPITAL

A small business has two sources for starting capital. One source is the personal funds of the entrepreneur, which may not be adequate. The other source is borrowed funds. However, lenders often avoid loans to small

business because of the risk involved in a new enterprise. Lack of operating funds can severely limit the business' growth and may cause failure.

Because of indivisibilities in the expansion of the capital base, smaller businesses often require larger amounts of finance to expand, relative to their total value, than bigger businesses. The problem arises particularly, but not exclusively, in businesses which have exhausted their owners personal finances and rely upon external sources to fund these early, relatively large, increases in scale. Many entrepreneurs use the bulk of their personal financial resources to set up their business. Some even resort to an element of external finance at this stage. In the first year or two many businesses may make a loss (real or accounting) or only a very small profit. This is usually for two reasons. First, because scale revenues initially lag behind outgoings in the early period of establishment for supplies, premises. Overheads, wages, etc. - a cash flow problem. And, secondly, because from a purely accounting stage it may be to the business' advantage to make an early loss to offset against corporation tax later on. As a result, the new business is often unable to fund an expansion from retained profits (Wilson Committee, 1983).

An inability to fund internally obliges the business to seek external finance at the point of development when its growth potential is highest but, for the same reasons, its ability to attract outside finance is lowest. Timmons, in commenting on the role of venture capital, observed that most venture capitalists would rather invest in a Grade A entrepreneur with a Grade B idea, than visa versa. A 1983 report in Venture Capital Journal showed that 68% of the companies invested in by venture capitalists were related to computers, communications, electronics, genetic engineering or "high technology" businesses. While these industries may enhance productivity, they

are not the sources of net new jobs, particularly in Wisconsin (Wisconsin Department of Development, 1984). The discrete nature of expansion which compels the smaller business to grow rapidly in scale also prevents it from offering sufficient collateral to secure sums needed. Indeed, the very small businesses may be caught between the effect of supply and demand in the lending markets and the return demanded by potential investors (SBA, 1977).

A further factor affecting both premise and financial requirements is the frequent need of small new business to expand rapidly in order to survive. Their initial growth is in many cases an intrinsic part of their birth and establishment. It stems from their early reliance upon either a single or very few customers. Once their product or service is found to be satisfactory, orders often increase in relatively large proportional jumps, and they usually cannot afford to lose a customer by rejecting the larger order. Large increases in demand will ultimately require an expansion of the business' capital base, which may place considerable pressure upon both premises and finance because of the discrete nature of capital and its acquisition (McNamara, 1981).

According to Binks and Coyne (1983), one basic choice facing the owner-manager when starting a business is whether to use his own domestic premises. The decision largely depends on the scale of his enterprise when he commences operations. The scale is determined by two factors: the size the owner can entertain given possible financial and supply constraints, and the minimum size which is technically and economically feasible in the market concerned.

The owner-manager's choice of scale is influenced by many factors, both psychological and economic. Individuals vary in their attitude to risk and responsibility. Some prefer to start on a very small scale and grow gradually as the process of establishing themselves provides reassurance about their

business availability. Others seek to maximize scale at start-up, equating their business size with personal success and stature. Many other permutations are possible between these two extremes.

Many new small business requirements are likely to be larger than most domestic properties can meet. There are therefore liable to be restricted at birth and in their early growth by pressures on liquidity which results from having to pay rent for larger premises than they can afford. There is a tendency for newer and small businesses to suffer from a lack of adequately-size premises which also cause some problems in meeting bureaucratic requirements in the form of building regulations. The implications of these pressures on their capital base are particularly serious for the financing of expansion because funds may not be easily obtained.

Friedman and Schweke (1981) indicated that the need for capital in the right amount and on the right terms is common to all forms of business enterprise. While financial specialists seem to agree that capital markets work reasonably well for large, established corporations, increased evidence indicates that the appropriate amounts and kinds of capital are not available for many classes of business enterprise. Among those enterprises experiencing systematic financing problems are small businesses (particularly, new and young ones), enterprises located in depressed communities, firms in new fields, and enterprises with non-traditional management or ownership structures (cooperatives, nonprofits, community development corporations).

Michelson (1981) indicated there are several forms of capital market failure. Market failure occurs sometimes when nonmonetary benefits (or costs) internal or external to the firm are not considered in the capital allocation process. Similarly, failure can be said to occur when monetary benefits (or costs) external to the enterprise (e.g., the cost of pollution control) are not reflected in capital market decisions.

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The reasons for this capital market failure are many and complex. Risk-aversion, the high information and transaction costs of servicing small deals, lack of risk pooling and spreading mechanisms, lender prejudice and governmental regulations combine to constrain investment in small business.

According to Hansen (1981), the financing difficulties experienced by established small businesses are multiplied for new and young businesses. The finance needs of these start-up firms generally are not even addressed by organized financial markets. Even venture capitalists rarely touch enterprises without a minimum two-to-three year track record. Seed money for these businesses, instead, comes overwhelmingly from the personal savings of the entrepreneur or contributions from friends, family, and associates. In addtion, Hansen noted that enterprise development in depressed communities, where investable savings are rare, is precluded by the current financing structure.

TAXES

Coyne and Wilson (1981) stated that the barrier to small firms which the taxation imposes have been recognized and reflected in lower rates and, in particular, higher thresholds for them. Taxation of the business should not be difficult for the new small business provided that the owner is aware of the thresholds and has an accountant who will ensure he benefits from all the appopriate allowances.

According to Binks and Coyne (1983) taxation is a bigger obstacle to the growth of small firms than to their formation. They identified the following principal ways in which it affects small firms and the extent to which they apply to new young enterprises.

Income Tax

The individual owner-manager is inhibited from taking money out of his compnay because of the taxation it would attract. But he also has to take care that the accumulated balances do not incur a liability for corporation tax. To avoid both, firms often invest regularly in plant and equipment.

Corporation Tax

Small firms are inhibited from accumulating profit over several years for fear of corporation tax, thereby weakening their ability to grow.

Capital Taxation

The direct effect of capital taxation on small firms arise from the operation of capital transfer tax. When firms are already in being, and an owner-manager wishes to pass on his business to his children, foresight and good accounting can minimize many of the harmful effects of existing tax legislation. The effect on the new firm should be minimal, except where it is hoped that a transfer will provide part of the start up capital. The major challenges to the new firm appear to be ability to generate start-up capital, to retain revenues, to fund early growth, and to perceive clear incentives to invest in potentially-profitable but risky ventures.

Hutt (1982), indicated that Federal and State regulations have been a constraint on small business because of the various tax policies and reports that are required each year.

According to Dryde and Davidson (1982), it is possible that states may be able to spur growth by prudently reducing the tax and regulatory burden on new firms which suffer from an inadequate cash flow but which possess the necessary qualities, e.g., a large product market, efficient production, strong management to grow and expand. Mature firms on the verge of closing down, but which have the potential of becoming profitable again through new management or reorganization, could benefit from favorable tax treatment.

MINORITIES

According to Garvin (1972), the business potential of minorities has been affected by a variety of social and economic factors that influence the ability of individuals to enter business and their success as business persons. Three individual prerequisites that affect the entry, survival, growth, and profitability of minority-owned businesses and businesses in general are (1) sufficient and appropriate education, (2) relevant occupational training, and (3) adequate levels of individual or family income or access to other forms of capital and credit.

Although education does not increase the likelihood that an individual will want to become a business owner, it does enhance the chances for entering business if entrepreneurship is the individual's choice. Education increases an individual's ability to earn, to save, and to acculumate wealth for financing new or expanding existing businesses.

A recent study on minority self-employment from 1960 to 1980 supports earlier research that identified education as an important prerequisite of business ownership. This new research found strong educational credentials to be the trait most closely associated with high entrepreneurial earnings (U.S. Department of Commerce, 1983).

In general, the lower level of family income of minority groups is a handicap to their becoming business owners. When translated into savings, family income is an important source of capital for financing new business starts. A recent study of the National Federal of Independent Business (NFIB), 1983, a small business association, found 25 percent of new businesses financed from one major source of credit were started with personal savings of the owner and savings of relatives and friends.

The implications of these findings for potential minority business persons

are significant. Historically, the median family income of householders of Spanish origin, black, and other nonwhite races has been lower than the median of white householders. This condition limits the prospects of these families to accumulate savings to finance business undertakings and therefore reduces their potential for entrepreneurship.

Higher income levels that influence an individual potential for saving tend to associate significantly with selected types of occupational groups. The ranking of 1982 median income of families by occupational groups follows: (1) executive, administrative, and managerial occupations, (2) professional speciality occupations, (3) technical and related support, and (4) administrative support including clerical (U.S. Department of Commerce, 1983).

In 1980, blacks and persons of Spanish origin were under-represented in managerial and professional occupations, and in the category of technical, sales and administrative support functions. White and Asians and Pacific Islanders were above average in representation in these occupational categories. In contrast, whites and persons of Asian racial groups were under-represented in occupations such as services, crafts, repair work, and fabrication. Conversely, blacks, persons of Spanish origin, and various miscellaneous races were over-represented in these jobs (U.S. Department of Commerce, 1983).

WOMEN

A study by Charlbonew (1981) indicated that the greatest obstacle for women is dealing with the banking and financial community which is 99% male. One method to overcome this barrier reported by Bassi (1981) was to conduct workshops for women and have bankers participate as session leaders or participants.

Obannion (1977) noted that financial institutions are male dominated, and such groups may not communicate as effectively with women as if there were more women in finance. In addition, Obannion noted that typical business social groups (i.e. Kiwanis, Chamber of Commerce) have typically been represented by men. Opportunties for women to share success stories and to be aware of business opportunities which are often discussed in such groups has not been available in the past for women.

Though the federal government has basic policies designed to facilitate small business development, McNamara (1981) has observed that federal financial assistance is often based on the type of business and its potential for hiring other employees. Obannion (1977) points out that the typical female owned business employers fewer than five employees, thus excluding such businesses from some forms of federal assistance.

Literature voids are apparent in regards to the ability of women to access both public (government) and private support for their business activities.

TECHNICAL ASSISTANCE

According to Hutt (1982) starting a small business is a complex process, regardless of which road to entrepreneurship you choose. First time entrepreneurs are more likely to fail if they need and don't obtain the assistance of advisers in various business matters. Advisers who should be contacted include: attorneys, accountants, bankers, trade associations, and the Small Business Administration.

The literature emphasizes many special barriers encountered by entrepreneurs. In reviewing many of these barriers, it appears that the principal barriers are: difficulty obtaining capital, management difficulty, government regulations, taxes, obtaining technical assistance, and being female or a minority.

A CONCEPTUAL MODEL OF BUSINESS DEVELOPMENT

The literature suggests that businesses develop and grow in an approximately sequential fashion. For the purpose of discussion, the model (See Figure 3) is construed as a two phased: Pre-Venture and Venture. The literature also suggests a third phase, Transition, but a discussion of this phase is outside the parameters of this study.

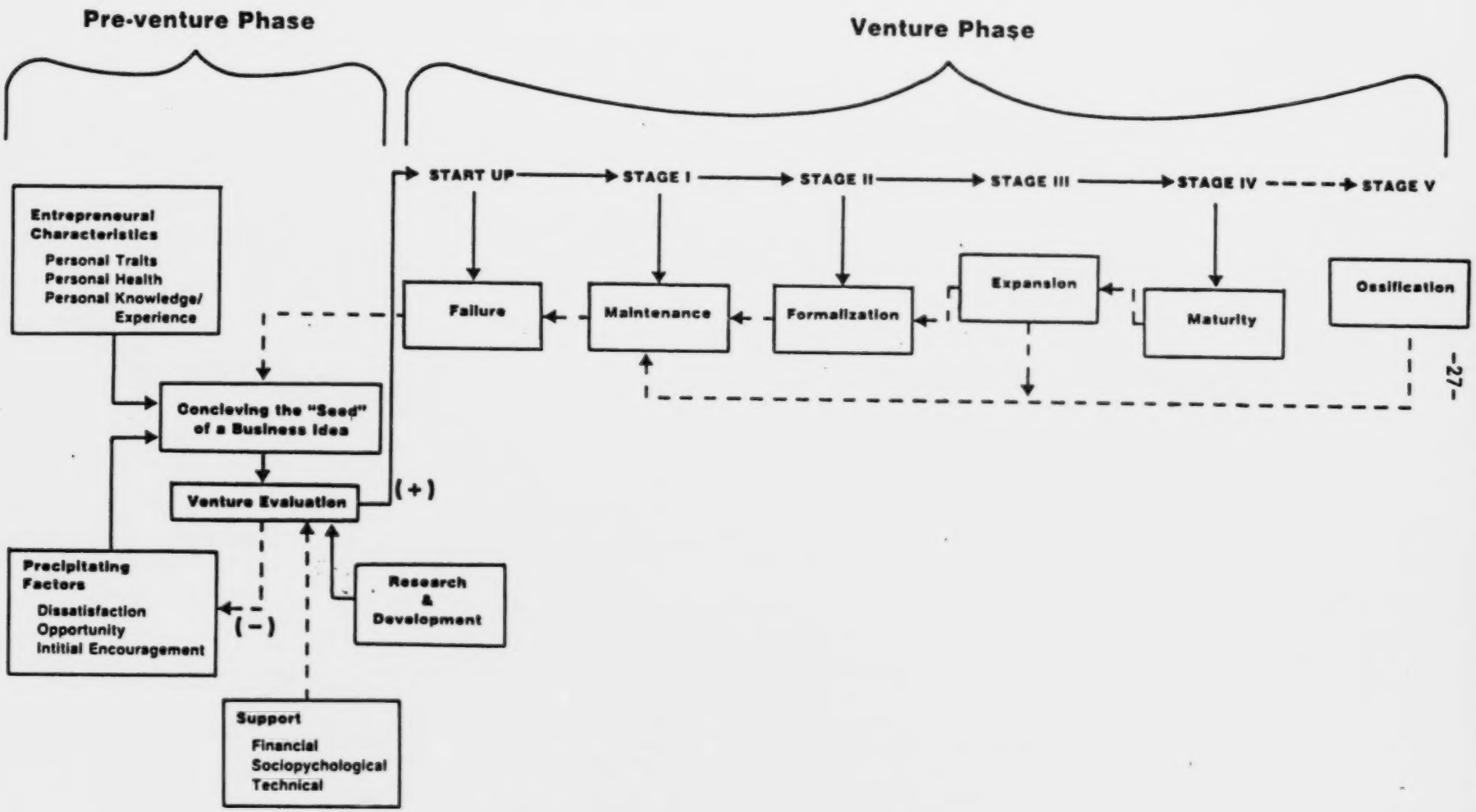
The Pre-Venture phase is conceptualized as a combination of events, personal characteristics, and activities that occur in a logical planned pattern or simply simmer in the cooking pot of entrepreneurial dreams for years. Some entrepreneurs will have the "idea" and seek to build sufficient expertise and support for the launch of a venture. Others will simply want to "be their own boss" and search for a business that will provide that opportunity. Still others seemingly stumble into the opportunity and seize it.

Regardless of the motivation, all will engage in some sort of evaluation process that may include research and product development. The entrepreneur will seek commitments for support, financial and technical, and assess the social and psychological impact of the decision.

It is critical at this phase for the entrepreneur to have access to institutions and individuals who can assist in the evaluation process. This is a role at least partly filled in Wisconsin by the network of Small Business Development Centers and the University of Wisconsin-System. Ohio has established one-stop licensing and financial assistance through a network of state supported Small Business Enterprise Centers for the the entrepreneur moving towards the venture phase. Minnesota has established a "seed capital" fund for entrepreneurs.

At some point, all of these deliberations and activities come together and a decision is made. A decision to initiate moves the enterprise into the

Figure 3
A MODEL OF BUSINESS DEVELOPMENT



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second phase of the model.

The Venture phase is conceptualized as consisting of five stages, two of which are transitional. While these stages are loosely considered linear, it is possible that at any stage, an enterprise may regress to an earlier stage. (Figure 3).

What follows is a brief discussion of each stage in the Venture phase. Churchill and Lewis (1983), although using models developed in the 1960's and research from the mid 1970's, provide a useful discussion of stage characteristics and key management factors. Drawing from this and the earlier discussion of barriers, three tables are presented that summarize the relative change in importance of management factors as an enterprise develops (Table 3b); six enterprise characteristics by stage (Table 3a); and barriers to business development at each stage (Table 3c).

START UP

After an enterprise is initiated (start-up) it must either move to Stage 1 or fail. Failures at the Initiation stage are largely a function of lack of experience of the owner-managers. One study of business failures attributed 41% of initial failures to entrepreneurial incompetence and another 52% to lack of experience in the business, management or both (SBA, 1977).

So the key factor at this stage is the owners operational abilities. Barriers to transition to Stage I include customer acquisition, availability of credit, and an often bewildering array of regulations and taxes.

Ironically, it is this stage that Birley (1981) identified as having the greatest potential for generating jobs. It is also the stage of greatest business failure. Whether this is a problem is a matter of some debate. Many successful entrepreneurs had failed previously . Perhaps this experience is helpful the second or third time around.

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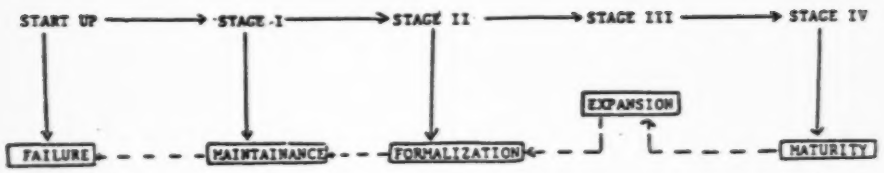
FIGURE 3a

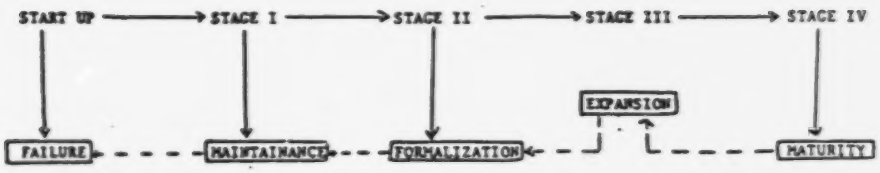
VENTURE Phase AND ENTERPRISE DESCRIPTORS



Management Style	Directive	Directive	Lines of supervision developing		Administrative
Organizational Structure	Utilitarian	Simple	Divisions		Complex
Formal Systems	None	Minimal	Basic		Extensive
Goals	Tactical	Tactical	Tactical & Strategic	Tactical & Strategic	Strategic
Orientation	Existence	Survival	Consolidation and Stabilization	Growth	Profitability
Job Generating Potential	High	Low	Moderate	High	Low to Negative

FIGURE 3b

THE IMPORTANCE OF ORGANIZATIONAL FACTORS



Financial Resources (Sources)	Key (Savings/Borrowing)	Key (Borrowing)	Not Important	Key (Borrowing/Markets)	Not Important (Internal)
Personnel Resources	Not Important	Not Important	Important	Key	Key
Systems Resources	Not Important	Not Important	Important	Important	Key
Business Resources	Very Important	Very Important	Important	Important	Not Very Important
Owners Goals	Not Important	Not Important	Important	Key	Not Important
Owners Operational Abilities	Key	Key	Important	Very Important	Not Important
Owners Managerial Abilities	Not Important	Important	Important	Key	Key
Owners Strategic Abilities	Not Important	Not Important	Important	Important	Key

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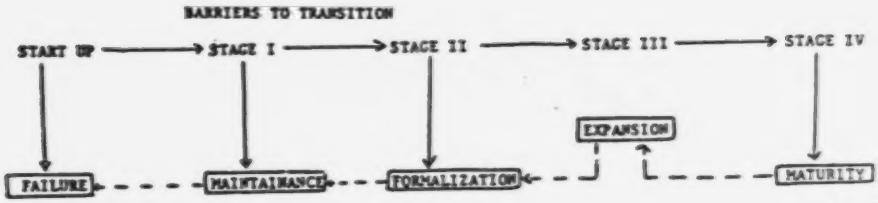
FIGURE 4



Business	Customer Acquisition	Cash Flow	Market Penetration	Cash Flow	Control
	Product Delivery	Economic Return on Investment	Development of Organizational Structure	Marshalling of Sufficient Resources	Complacency
	Capitalization			Delegation	Flexibility
	Credit				
	Taxes & Regulations				
Owner-Manager	Lack of Understanding of the "language of business"	Conflict between owners personal and business goals	The degree of Owner Involvement		
	Lack of knowledge about regulations				
	Need for facade of success				
	Ignoring needs of employees				
	Lack of timely financial reports				

STAGE 1

Many enterprises that move to Stage I move no further. These enterprises seek Maintenance of the status quo. Typically "Mom and Pop," their orientation is towards earning a livelihood, independence, and survival. One estimate suggests that 79% of all enterprises stablize at this stage . The reasons firms at this stage do not move to Stage 2 are many. The owner's personal and original business goals, interests, preferences, opportunities, and circumstances all affect the orientation towards growth. Specific problems and barriers to growth at this stage are cash flow and economic return on investment. The operational abilities of the owner continues to be the cruical management factor.

Although the job generation potential of business at this stage of development is low, the potential for this segment is large as it represents an opportunity for individuals to create their own job.

STAGE 2

As firms begin to add additional employees and develop structure, the orientation moves towards consolidation and stablization. The need for management development becomes more important. People, markets, products and services, suppliers, and professional assistance begin to become concerns of the firm.

While financial resource concerns diminish somewhat as a factor as the customer base grows, the importance of individual customers or clients increases. Two principal barriers to growth at this stage are developing and understanding new markets and developing organizational structure. While the transition to Stage 2 from Stage 1 has a moderate potential for generating jobs, enterprises that stop their development at Formalization, have low job generating potential.

STAGE 3

This is conceived as a key transition stage. Firms in Stage 3 are growth oriented. Key factors at this stage are developing adaquate financial and personnel resources, the owners goals and managerial capabilities, and staying power Barriers to success in this stage are managing the cash flow, developing sufficient financial resources, building and expanding markets, and the owner's ability to effectively delegate. While the job generating potential is high, there may be an inverse relationship between the time it takes a firm to achieve this stage and its potential to create new jobs. Birch (1979) found that after four years, the job generating potential of small businesses seems to slack off.

STAGE 4 & 5

Firms that successfully start up, formalize and expand at some point enter the stage referred to as Maturity. This stage is characterized by an administrative management style and complex organizational structure. The orientation is towards maintaining markets and profitability. The systems and personnel resources are key factors. The job generating potential at this stage is minimal and may even be negative as firms incorporate new technology to enhance productivity and their competitive posture. The barriers to survival at this stage are lack of flexibility and complacency.

The inability to surmount these barriers may lead to Ossification and ultimately the death of the enterprise. As firms become rigid and unresponsive to the marketing environment they may collapse under the weight of their own corporate structure.

In summary, the model presented suggests that an enterprise begins as an idea. Influencing this idea are personal characteristics of the potential entrepreneur and precipitating factors. The idea then is evaluated and the potential for success is considered.

The decision to initiate an enterprise triggers a dynamic that ends in failure or one of three other possibilities. Early on, an enterprise may achieve a Maintenance level of activity and, if the owner's goals are congruent, may stop at this stage. More ambitious goals may drive the enterprise towards a second stage. Many businesses will formalize their operations concentrating on consolidating and stablizing. Some firms will cease to grow at this stage Others may launch directly into a transitional Expansion Stage focussing on growth. At this point the enterprise may regroup and enter a Formalization stage or move on to the next stage, Maturity. Enterprises at this stage must constantly guard against complacency and rigidity for the possibility the of mature enterprise ossifying and regressing to Maintenance or Failure is very real.

This model suggests that the potential for generating jobs differs by stages. The two transitional stages, Start-Up and Expansion, have the greatest potential. Companies in the Maintenance and Maturity stage have the lowest.

PART II

The conceptual model developed in Part I was used as the basis for developing the emperical component of this study. Four specific research questions were developed to guide the research activites.

To address the transition from the Pre-Venture phase to the Venture phase, the following questions were developed:

1. What is the relationship between initiating a small business and sources of financial support (actual and anticipated), precipitating and motivating factors, entrepreneural characteristics, and environmental characteristics?
2. What are the perceived barriers to starting a business?

To address the Venture phase, the following questions were developed:

3. What characteristics of the owner/manager, the enterprise, and the environment contribute to explaining the potential for growth? Specifically:
   a. What is the relationship between industrial classification and anticipated growth?
   b. What is the relationship between the number of employees and anticpated growth?
   c. What is the relationship between the stage of business development and anticipated growth?
4. Is there a difference in the long range business orientation of Wisconsin owner/managers compared to those in other states?

Population and Sample

The population for this study was all businesses in Wisconsin reporting at least one paid employee. Also included for part of the study were all individuals who had sought assistance from the Small Business Development Center in Madison, Wisconsin for the purpose of starting a business.

The random sample of businesses (N=400) was obtained from unemployment compensation records of the Department of Industry, Labor, and Human Relations in Wisconsin. The random sample of potential entrepreneurs (N=200) was obtained from the Madison office of the Small Business Development Center.

A legitimate concern about survey research is whether the individuals who respond are representative of the original sample. Table 1 shows the percentage of respondents in each industrial classification in the original sample for this study. Also shown is the percentage of respondents by the same classification scheme (response rate = 69%). These data suggest the respondents were underrepresented in the catagories of mining and wholesale trade. The responding group is over represented in the services area. One possible explanation for this is that many of the mining concerns are owned by out of state corporations. None of the out of state respondents (8% of the original sample) returned survey instruments. Table 2 shows the demographic profile of the responsing sample.

A similar analysis is not available on the sample derived from the SBDC. However, the response rate for that group was 27%.

Table 1. An Analysis of Respondents by Classification

Catagory	Original Sample	Respondents
Agricultural Related	.01	.00
Construction	.08	.08
Mining	.08	.00
Manufacturing	.08	.10
Transportation and Public Utilities	.05	.03
Wholesale Trade	.10	.04
Retail Trade	.27	.22
Services	.40	.53

Table 2 provides a breakdown of the demographic characteristics of the sample used for this study.

Table 2. Demographic Characteristics of the Sample[a]

Gender	
Male Respondents	75.7%
Female Respondents	19.9%
Race	
White	76.6%
Non-White	19.8%
Age	
Below the age of 30	8.8%
Age 30 to 40	25.5%
Age 41 to 50	35.0%
Age 51 to 60	20.1%
Over the age of 60	8.4%
Education	
Less than a high school education	15.6%
High school education	43.1%
Bachelors degree	30.5%
Masters degree	4.5%
Doctoral degree	6.3%

a. Percentages may not add to 100% because of missing responses.

Methodology

A survey was conducted of potential entrepreneurs and established entrepreneurs between January 1 and February 15, 1985. The data required was collected using an instrument developed for this study. The survey instrument consisted of items focussing on identifying institutional, owner/manager, and environmental characteristics, and barriers to growth of businesses in Wisconsin. It also addressed motivations, percipitating events, personal and demographic characteristics associated with the entrepreneur. The items included in the study were identified from the review of literature. A pilot study, involving a sample of eight small businesses, was conducted for the purpose of determing the content validity, clarity, reliability, adequacy, and appropriateness of the items identified. In addition, the instrument was revewied by staff from the Small Business Development Center.

Data Collection

The data required for the study were collected through the use of a mailed survey questionnaire. An advance letter from the Wisconsin Strategic Development Commission requesting cooperation was sent to the businesses selected for the study. Approximately one week later the questionnaire was mailed with a prompting post card following a week later.

Because of the restricted time frame for the study, no follow-up of the non-respondents was possible. However, because the percentage of respondents by SIC classification closely approximated the original sample (see Table 1) except for mining and service, it was determined that the quality of response was adaquate.

Data Analysis

The data collected were analyzed using descriptive statistics, multiple regression analysis (least squares), and a test of proportions. Descriptive statistics were used to generate a profile of the respondents and barriers to

entry and growth of businesses as well as for other key questions. Multiple regression analysis was used to ascertain the relationship between key variables and whether or not a person initiated a business venture. Regression was also used to determine the relationship between key variables and the anticipation of future growth. A test of proportions was used to explore the relationship between long range business orientation of Wisconsin owner/managers and a national sample of their counterparts.

RESULTS

Analysis of the data gathered during the conduct of the study yielded the following results with respect to each research question posited.

Question 1: What is the relationship between initiating a business venture and sources of financial support, precipitating factors, motivating factors, personal characteristics, and environmental charateristics.

This question was addressed from two perspectives. First, what was the relationship between entrepreneural characteristics, motivational and precipitating factors, and classification as in business or not in business (INBUS). The precipitating factors included (variable name in parentheses):

Immigrated from another country (IMMIGRAT)
Laid off or fired from previous job (LAIDOFF)
The company was sold (SOLD)
There were organizational changes, so I left (ORGCNG)
I did not want to accept a transfer (TRANSFER)
I just left the military or college (LEFTSCH)
My last child left home or I was recently divorced (MTHOME)
I realized I was getting older and knew it was now or never (AGING)
I was lured into this by a friend or colleague (LURED)

The motivating factors included:

To make more money (MOREMON)
To be my own boss (OWNBOSS)
To come and go as I wanted (OWNTIME)
To have a job or career (CAREER)
To be respected in the community (RESPECT)
Saw an opportunity to fill consumer needs (CUSTOPP)
For a challenge and personal satisfaction (CHALLENG)
There were no opportunities for growth in my previous job (NOOPP)

I thought I had a better idea about running this kind of business (IDEA)
I had friends who offered to lend me money to get started (FRIENDS$)
I had potential customers who encouraged me to start my own business (CUSTOPP)
I was bored with my previous job (BORED)
I wanted more security for my family (SECURITY)

Entrepreneural characteristics are listed in Table 2.

The results suggest that those who decided not to start a business venture were more likely to be motivated by concern about growing older and not achieving more in life, more likely to be bored with their previous job, and more likely to female. In addition, those not starting a business were more likely to have had friends who initially, at least, offered financial support for the business venture (Table 3).

Table 3. Precipitating and motivating factors of Entrepreneurs

	Independent Variables				
Dependent Variable	AGING	BORED	GENDER	FRIENDS$	R^2
INBUS	-.29531	-.21087	-.21210	-.18093	.2111

a. Coefficients reported as standardized.

The second perspective on this question addressed the sources of expected or actual startup capital resources. Respondents were asked to identify the likelihood of using various resources and what percentage they would or did use to actually start the business (Tables 4 & 5).

The results suggest that those who did not start a business venture were more likely to have anticipated relying on loans from friends and government loans. The availability of startup or growth capital from financial institutions, sale of stock, retained earnings, or from venture capitalists did not emerge as barriers to initiating a business venture (See Table 6).

Table 4. Anticipated or actual sources of Startup Capital as a percentage of total startup resources

Sources	Variable Name	$\bar{X}$%
Personal Savings	(STRTBUSA)	.42
Family Members	(STRTBUSH)	.11
Friends	(STRTBUSC)	.03
Loans from financial institution	(STRTBUSD)	.34
Government loans	(STRTBUSE)	.02
Other (including venture capitalists, sale of stock, etc.)	(STRTBUSF)	.09

Table 5. Likelihood of Using Capital Resources

Source	Variable Name	$\bar{X}$
Retained Earnings	(CPARESA)	1.88
Family Members	(CAPRESB)	2.08
Financial Institutions	(CAPRESC)	2.55
Sale of Stock	(CAPRESD)	1.25
Loans from Friends/Family	(CAPRESE)	1.32
Venture Capitalists	(CAPRESF)	1.23
Other (including government loans)	(CAPRESG)	1.29

a. 1 = Not likely 3 = Very likely

Table 6. Sources of finance for entrepreneurs.

Dependent Variable	Independent Variables		R^2
	STRIBUS€	~~STRIBUSD~~ CAPRESE	
INBUS	-.57751	-16355	.3508

a. Coefficients reported as standardized.

Table 6. Sources of finance for entrepreneurs.

	Independent Variables		
Dependent Variable	STRTBUSE	CAPRESE	R^2
INBUS	-.57751	-.16355	.3508

a. Coefficients reported as standardized.

Question 2: What are the perceived barriers to initiating a business venture?

The sample of respondents who did not initiate a business venture identified thirteen barriers (N=25). Table 8 shows the perceived barriers and frequency of times each was indicated (multiple responses were allowed). While lack of money or personal assets was the most frequently mentioned barrier, the combination of barriers related to the respondents personal situation (items 2,3,5,6,10, & 11) represent 46% of the barriers cited. Barriers related to lack of capital and the environment (items 1,7,8 & 12) represented 39% of those cited. Business related barriers (items 4,13, &9) represented 15% of those cited. These data suggest that characteristics related to the individual entrepreneur are the primary barrier to initiating a business venture, while the availability of capital resources are secondary.

Table 7. Perceived barriers to business entry a,b

1.	Lack of money or personal assests	25%
2.	Decided the business was too risky	14%
3.	I was concerned that I wouldn't make it	12%
4.	The business didn't have the potential	8%
5.	Lack of expertise	7%
6.	Unable to make the committment	7%
7.	Too many rules and regulations	7%
8.	Other, assistance related	3%
9.	Other, business related	3%
10.	Other, health related	3%
11.	Other, personal related	3%
12	Banks unwilling to loan me the money	2%
13.	Couldn't decide what business to go into	2%

a. N=25
b. Multiple responses permitted

Question 3: What characteristics of the business, the entrepreneur, and the environment contribute to explaining the potential for growth? Specifically, what are the relationships between industrial classification, number of employees, and stages of development with anticipated growth?

Most firms in Wisconsin do not anticipate adding additional employees within the next three years, although only a few anticipate have fewer employees (Table 8). Approximately 38% of the firms do anticipate adding new fulltime employees and approximately 24% anticipate adding new parttime employees.

Table 8 Anticipated growth of employment by Wisconsin firms

Fewer	About the Same	More
	Fulltime Growth	
4.5%	57.4%	38%.0
	Parttime growth	
5.8%	69.9%	24.3%

But do firms differ in their propensity for growth? As discussed in the background to this study, there is evidence that firms grow differentially and that characteristics of the firm, the entrepreneur, and the environment may affect a firms orientation to growth. Specifically, the study examined growth by industrial classification, stage of business development, and as a relationship with stage of development, sources of expansion capital, owner, business and environmental characteristics.

A Chi Square analysis of the relationship between industrial classification and anticipated growth showed no significant relationship.

There is a relationship between the stages identified for this study and anticipated growth. Firms in the Expansion and Maturity stages are positively related to anticipated growth while firms in the Maintainance stage are negatively associated with anticipated growth (Table 9).

The author was interested in examining the relationship between the potential for growth, stages of business development, business, owner/manager characteristics, environmental characteristics, and percieved barriers to growth. To examine this question, the variables in Table 9 showing the relationship between stages of development and descriptive indices, the variables used to develop equation in Table 6 showing sources of expansion capital (Table 3), and the variables identified as problems or barriers (Table 10) were entered into a regression model for analysis.

The results of the analysis are shown in Table 11. The data suggest that none of the identified barriers relate to the expectation of growth in the next three years with the exception of government regulations. Firms more likely to express the expectancy to generate jobs are positively associated with higher scores on the expansion stage and negatively associated with higher scores on the Maintainance stage. They are more likely to owned or managed by a male. And, they are less likely to feel that government regulations are a problem.

Table 9. Correlation of Stages and Descriptive Indices

Index	Stages			
	Maintainance	Formalization	Expansion	Maturity
Firm Characteristics				
Full time employment 1985	-.0807	.0932	.1501*	.2325*
Part time employment 1985	-.0188	.0931	.1039	.1232*
Employment change since 82	-.1832*	.0642	.0640	.1846*
Anticipated Growth by 1988	-.1892*	.0422	.2612*	.2167*
Age of the firm	.0113	.0527	-.0088	.0433
Owner/Manager Characteristics				
Tenure as owner/manager	.1418*	.0608	-.0615	.0492
Educational attainment	-.0895	.0507	-.1258*	-.0134
Gender	.0215	.0244	.0175	.0437
Race	-.0402	-.0510	-.0817	-1561*
Locus of control	-.2780*	-.1169*	.0221	-.0155
Tendency to keep updated	-.0130	.0635	.1996*	.1873*
Age	.1546*	.0550	-.0730	-.0243

* $p \leq .05$.

Table 10. Barriers experienced in the operation of a small business

Barrier	Variable Name	% Responding [a]
Government regulations	(GOVTREG)	46%
State Tax	(STATETAX)	42%
Federal Tax	(FEDTAX)	39%
Being more efficient	(EFFICIEN)	32%
Finance	(FINANCE)	30%
Making ends meet	(ENDSMEET)	23%
Employees	(EMPLOYEES)	22%
Management experience	(MGTEXPER)	18%
Lack of information about my business	(LACKINFO)	8%

a. Percentages will add to more than 100% due to multiple responses

Table 11. Anticipated growth in employment.[a]

Dependent Variable	Independent Variables				
	STAGE 3	GOVTREGS	GENDER[B]	STAGE 1	R^2
FTEMPANT	.27449	-.17888	-.17920	-.15589	.17690

a. Reported as standardized regression coefficients
b. Male=1 Female=2

Question 4. Do small business persons in Wisconsin differ in their orientation to growth from business persons in other states? One of the concerns of the sponsors of this study was the extent to which systematic differences may exist in business orientation between business persons in Wisconsin and other states. While it was outside the parameters of this study to conduct primary research in other states, such research is available as secondary data. One such study by the Sentry Insurance Company (1984) examined a number of attitudes about entrepreneurship and business orientation. One set of questions examined the business owners long range objectives. It is important to note that the Sentry study focussed on four specific industrial segments: automotive jobbers, hardware businesses, precision metal working, and travel agencies. The present study, which had a more representative sample, also examined the same questions so a comparison is possible using a test of proportions. The results suggest there are differences between the national sample used in the Sentry study and the sample used in this study. Respondents in this study are less likely to identify with the long range goal of major growth of the business in terms of sales, profits and number of employees over time (Table 12).

Table 12. Business orientation of Wisconsin business

Objective	Proportion of sample identifying with the objective Very Closely or Somewhat Closely		
	National Sample	Wisconsin Sample	Z
Staying in business year in and year out.	93%	93%	.00
Making an average profit for my kind of business	87%	79%	1.58
Making an above average profit for my kind of business	81%	76%	1.16
Major growth of the business in terms of sales, profits, and number of employees over time	85%	69%	3.41*

*$p \leq .05$

CONCLUSIONS

The pattern of business development is slightly different than initially conceptualized. The results of this study support the concept of an approximately linear stage transition process, although the distinction between stages in the Venture phase are less definitive then anticipated. Businesses are likely to have tendencies of all stages with one stage being predominant. Thus when stages are discussed, it is the tendency to score higher on that stage.

The hypothesized model presented in Figure 3 has been modified to reflect the results of the study (Figure 4). The principal difference in the two models is the reconceptualization of the Formalization stage to a formalization process, the level of which increases with growth. The Expansion stage has been depicted to more accurately reflect the dynamic relationship with Stage 3 and with Stage 5.

Those individuals who do not successfully make the transition from Stage 1 to Stage 2 and initiate a business venture tend to identify lack of capital resources as the principal barrier. Yet, the unsuccessful potential entrepreneur differs from the successful entrepreneur largely on dimensions that are internal or, at the very least, not related to environmental or governmental barriers. The unsuccessful entrepreneur is more inclined to be motivated by the belief that he/she is getting older and is bored with a present job. The unsuccessful entrepreneur is also more likely to female and believe that friends will finance the venture. The unsuccessful entrepreneur is also more likely to anticipate obtaining the startup capital from government loans and from their friends.

For the unsuccessful entrepreneur, it may be concluded that a combination of personal characteristics and the perceived unavailability of government loans create barriers to initiating a business venture (See Appendix A for

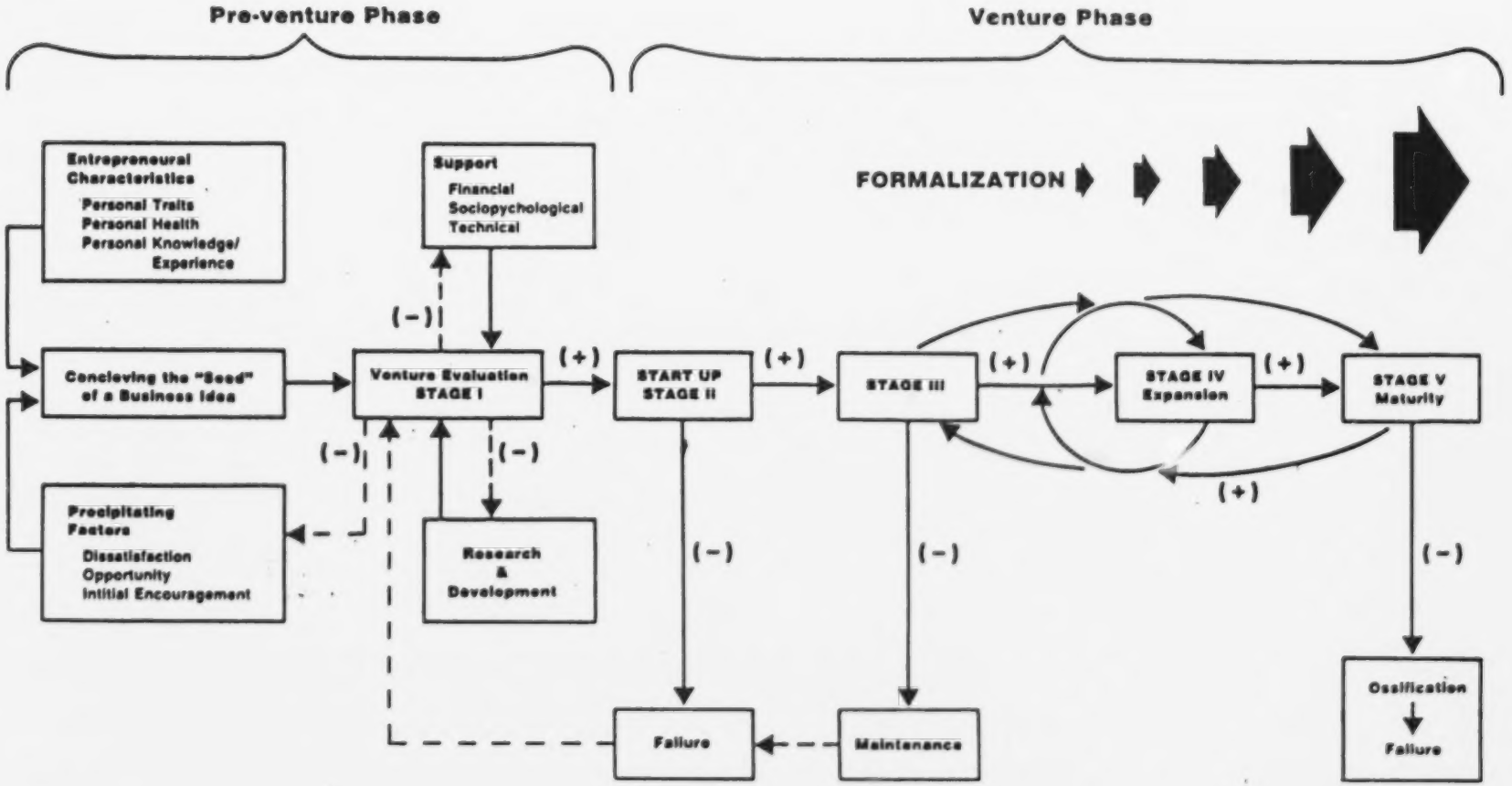
unedited suggestions of potentially useful services for the entrepreneur).

For those involved in a business venture, the most often cited barriers to continued business operation and growth are government regulations, state and federal taxes (See Appendix B for unedited comments). They tend to perceive the state government as doing too little or too much with respect to fostering good management and labor relations, and keeping personal and business taxes in line. They are most likely to seek expansion capital from financial institutions and least likely from venture capitalists.

When the relationship between anticipated growth and concerns about the role of government, sources of expansion capital, perceived barriers, and the stage of their business development the areas of concern and complaint prove to be unrelated. Those in the expansion stage are inclined to grow, those in the maintainance are inclined not to grow, and women owned business are less inclined to anticipate growth then are male owned businesses. Businesses inclined to grow are also less likely to be concerned about government regulations.

Thus it would appear that most of the perceived barriers to growth are explained by the stage of develoment of the firm. Except for the one very real barrier experienced by women, none of the other barriers appear to make a unique contribution to explaining anticipated growth.

Figure 4
A MODEL OF BUSINESS DEVELOPMENT



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